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Subject: Public Utilities Commission report suggests PSNH dump power plants

News Headline: Public Utilities Commission report suggests PSNH dump power plants |

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News Text: CONCORD — The power plants owned by Public Service of New Hampshire aren't worth nearly as much as the company thinks, according to staff investigators at the Public Utilities Commission, who suggest the regulated utility should get out of the power-generating business and focus exclusively on energy delivery.

"We recommend that PSNH be asked to bring forth immediately proposals that would address a transfer of energy supply assets to an affiliate in accord with the optimistic views that the company has expressed with regard to the value of those assets," the staff wrote in a 55-page report likely to change the face of competitive electricity sales in the state.

The report, issued late Friday afternoon, is the result of a five-month study into the current state of deregulation, triggered by the steady migration of PSNH energy supply customers to competitors. It claims the status quo, in which PSNH serves as the default provider of electricity, is unsustainable.

Since late last year, nearly 100,000 of the company's 400,000 customers have switched to competitors for energy supply, leaving a shrinking customer base to pay higher rates in support of PSNH operating costs, which include aging coal-fired plants.

"The situation looks to worsen, as continuing migration from PSNH's default service by customers causes an upward rate trend," the report states. "We find no supportable basis for optimism that future market conditions will reverse this unsustainable trend, especially in the near term. To the contrary, the PSNH fossil units face uncertainties that combine to create a risk of further, potentially substantial increases in costs."

The report describes the situation as urgent and demanding immediate attention from the PUC, the state Legislature and the governor, warning that, "taking no action threatens to leave a dwindling yet still substantial number of the state's residents and small businesses facing ever higher costs for service relative to market alternatives and could eventually threaten the financial health of PSNH."

The staff urges the commission to open hearings to determine whether PSNH should unload the power plants and how they should be unloaded. The hearings would also determine how PSNH would be compensated for losses incurred in such a transaction, also known as "stranded costs."

Little market value

The company invested more than \$400 million in pollution-control systems that went online in 2011 at the PSNH coal-fired plant in Bow, and would likely be facing substantial losses if it had to sell the plant. In addition to the 440-megawatt Bow plant, called Merrimack Station, the other power plants at issue are Schiller Station in Portsmouth, 150 megawatts with two coal boilers and one wood boiler; and Newington Station, 400 megawatts, which was built to burn oil and retrofitted in the early 1990s to burn a combination of oil and natural gas.

In addition, the company owns nine hydro plants scattered around the state generating about 68 megawatts.

PSNH believes it can still demonstrate their economic value. "We will respond to this report in the manner directed by our regulators, and look forward to demonstrating the significant benefits PSNH's generation fleet provides to customers," said PSNH spokesman Martin Murray in a statement issued after the report was released.

The PUC staff is not likely to be swayed.

"We do not share the view of PSNH, nor has the company in response to our requests provided any analysis confirming its view of fossil fleet value," they wrote. "Our analysis shows that the fossil units have very little market value."

Susan Chamberlin, consumer advocate at the PUC, agrees with the report's conclusion that something has to change.

"Right now, residential ratepayers are paying the majority of the cost for PSNH power plants, and the plants just are not economical," she said. "There are too many other lower-cost options in the market."

When lawmakers initially approved deregulation of energy sales in New Hampshire, they anticipated that PSNH would get out of power generating and focus exclusively on delivering electricity. The company sold its interest in the Seabrook Station nuclear power plant, but the law was later revised to allow PSNH to retain its remaining power plants, in the wake of the California electricity crisis.

Options to consider

If PSNH is going to be forced to sell the power plants, the Legislature will likely have to become involved, Chamberlin said.

"The commissioners are trying to bring all the parties together," she said. "If they issued something on their own, and the Legislature didn't like it, the Legislature would just overturn it."

There are many options for divestiture and for recovering stranded costs, which according to the report will require consideration by regulators, and legislative and executive leadership.

After that, the whole matter could end up in the courts anyway.

According to the report, everyone involved needs to proceed with a sense of urgency: "There is not a great deal of time for the state to act to address what will become an increasingly onerous burden for what now comprises a majority of the state's residents and many of its smaller businesses."

The Liberty Consulting Group of Lebanon, Pa., assisted in developing the report. The company specializes in advising utility managers, executives and regulators.

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